



# **REVENUE ENHANCEMENT & DIVERSIFICATION**

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**07/19/2021 City Council Study Session**

# REVENUE ENHANCEMENT & DIVERSIFICATION OVERVIEW

- ***Background:*** City Council conversations around revenue enhancement & diversification options
- ***Discussion Context:*** City Council is exploring options, nothing is definitive.
- ***Discussion Context:*** If direction is provided to pursue any of the options, team will provide a recommended communications and engagement strategy.
- ***Policy Opportunity:*** Opportunities exist to best match the source of funds to the use of funds.
- ***Policy Opportunity:*** Emphasis on all users who benefit from public service also contribute.
- ***Policy Opportunity:*** Revenue diversification and enhancement can address important community infrastructure needs.



# Community Lighting Utility



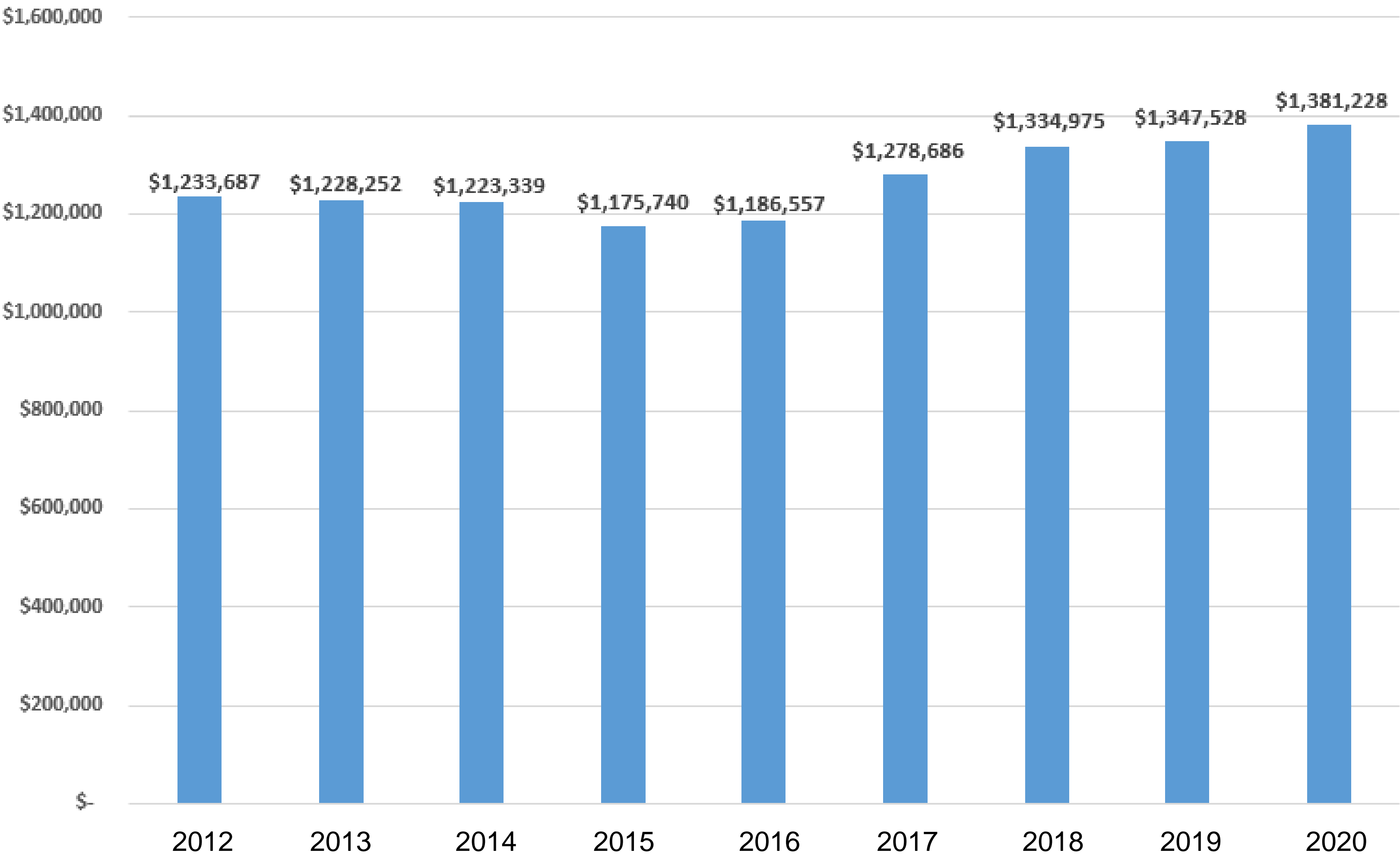


# Community Lighting Utility - Background

- The City operates and maintains a community lighting system to maintain the safety of streets, sidewalks and trails.
- The City is responsible for the costs associated with operating and maintaining community lighting. These costs are currently funded from the General Fund - costs are approximately \$1.4 million.
- There are approximately 10,000 public street lights in the City that include 9,193 street lights, 450 recreational trail lights, and 400 decorative lamps.



# City Street Light Budget from 2012-2020



# Community Lighting Utility - Rationale

- Provides an opportunity to re-prioritize tax levy.
- Revenue diversification mitigates the ups and downs of State imposed levy limits, reduced LGA payments, and shifts in the property tax base.
- Requires all properties who benefit , including tax exempt properties, to pay toward the operation and maintenance of a community lighting system.



# Other Minnesota Cities that have Established Community Lighting Utilities

- Apple Valley
- Brooklyn Center
- Brooklyn Park
- Bursville
- Crystal
- Eagan
- Golden Valley
- Jordan
- Maple Grove
- New Hope
- Oakdale
- Otsego
- Plymouth
- St. Cloud
- Savage
- Shoreview
- South St. Paul
- Stillwater
- Waconia
- West St. Paul
- Woodbury

This is not a comprehensive list of all cities that have street light utilities in MN



# Community Lighting Utility – Implementation Steps

- City Council adopted a Community Lighting Utility Ordinance in 2010 (Chapter 12-8 Street Lighting Utility)
- Community Lighting Utility charge needs to be determined by resolution based on a community lighting service charge by Rochester Public Utilities





# Community Lighting Utility – Recommendations

- City Council approve the pursuit of implementing a Community Lighting Utility and direct City team to collaborate with Rochester Public Utilities team to determine the fees
- Teams to bring back to City Council a proposed fee structure for consideration



# Natural Gas Franchise Fee



# Natural Gas Franchise Fees - Background

- Cities have franchise agreements with private utility companies for their use of public-owned right-of-way for private business purposes.
- City of Rochester has an existing natural gas franchise with Minnesota Energy.
- Our current franchise agreement and State Statute 216B.36 allow a franchise fee to be established for the use of public-owned right-of-way.
- This fee is then generally passed on to the utility customers.



# Natural Gas Franchise Fees - Background

- With franchise fees, residential property owners, businesses and other classes of natural gas customers pay a monthly charge based on the fee structure.
- Franchise fee structure options commonly include, but are not limited to:
  - Fixed monthly fee
  - Per meter fee
  - Percentage of revenues
  - Charge per therm used
  - Different combinations of these fees
- Under a franchise fee arrangement, all natural gas customers, including tax exempt properties, would be contributing.
- Most communities dedicate revenues for a specific purpose.





# Natural Gas Franchise Fee

**Pavement Condition – Annual \$16-\$20 million unfunded liability in pavement maintenance.**





# Natural Gas Franchise Fees – Condition of Street System

CONDITION CATEGORY	PAVEMENT CONDITION INDEX RANGE	PERCENT OF SYSTEM - ASPHALT	PERCENT OF SYSTEM - CONCRETE
VERY GOOD	91 – 100	39	40
GOOD	67 – 90	38	44
FAIR	34 – 66	21	16
POOR	0 – 33	2	0
WEIGHTED AVERAGE = 79.15			





# Natural Gas Franchise Fees – Approaches to Setting Rates

BASIS FOR CHARGE	OPPORTUNITY	CHALLENGE
<b>FIXED MONTHLY FEE AND PER METER FEE</b>	<ul style="list-style-type: none"><li>•CONSISTENT ACROSS ALL HOUSEHOLDS</li><li>•REVENUE IS PREDICTABLE AND CONSISTENT.</li></ul>	<ul style="list-style-type: none"><li>•DOES NOT AUTOMATICALLY INDEX AS RATES INCREASE</li><li>•REVENUE CAN BE STAGNANT OR DECLINE DUE TO UNWILLINGNESS TO ADJUST RATES.</li></ul>
<b>PERCENTAGE OF REVENUES</b>	<ul style="list-style-type: none"><li>•INDEXES AS RATES AND USAGE INCREASES</li><li>•CONSERVATION FOCUSED. THOSE THAT USE MORE, PAY MORE.</li></ul>	<ul style="list-style-type: none"><li>•EXPOSURE TO REVENUE DECREASE IN THE EVENT THAT USAGE DECLINES SIGNIFICANTLY.</li></ul>
<b>CHARGE PER THERM USED</b>	<ul style="list-style-type: none"><li>•CONSERVATION FOCUSED. THOSE THAT USE MORE, PAY MORE.</li></ul>	<ul style="list-style-type: none"><li>•EXPOSURE TO REVENUE DECREASE IN THE EVENT THAT USAGE DECLINES SIGNIFICANTLY.</li></ul>



# Natural Gas Franchise Fees – Revenue Estimate

- To provide a basis for discussion and consideration, an estimate was calculated using a 12 month set of data provided by MN Energy.
- A potential fee structure could be:
  - 5% fee on revenues for most rate payers
  - \$0.013 per therm charge for wholesale customers
  - Results in approximately \$3.0M in revenues
  - Impact to most residential payers is around \$3.00/month





# Natural Gas Franchise Fees – Minnesota Energy Feedback

- Prefer a flat monthly fee if enacted
- MN Energy customers are already paying the capital fee for improving assets in the Rochester area
- Rochester will be MN Energy's largest city to implement a fee (several logistics concerns related to setting up billing of the fee)



# Natural Gas Franchise Fees – Recommendations

- A percent of revenues fee for most rate classes
- A per therm fee for wholesale customers
- Use proceeds to increase investment toward street infrastructure and the City's Pavement Management Plan.
- This approach would address the special benefit test challenges that exist with our current assessment process and add new investment.



# Next Steps

*Does the City Council want to prioritize either of these potential revenue sources for further exploration?*

If so next steps would include:

## **Community Lighting Utility**

- Evaluate rate structures and approve rates

## **Natural Gas Franchise Fee**

- Finalize rate structure
- Adopt ordinance
- Partner with MN Energy for implementation steps and timeline





## Policy Considerations

- 1) Is it important to leverage revenue enhancement and diversification approaches to address important, strategic community infrastructure needs and obligations?**
- 2) Does City Council wish to seize the opportunity to best match sources of funds with uses of funds?**
- 3) Should there be an emphasis on all users who benefit from the public service(s) to contribute financially to such service(s)?**
- 4) Does City Council want to prioritize either of these potential revenue sources for further exploration?**